Transnationals

Quarterly Newsletter of the United Nations Centre on Transnational Corporations

INVESTMENT IN ASIA QUINTUPLES IN 80s

China and Four Newly Industrializing Economies Receive Three Quarters of New Flows

Growing from $3 billion in 1980 to $16.5 billion in 1989, annual investment flows to Asia quintupled in the last decade. Taken together, 21 Asian countries now receive about a half of all flows to the developing world. The growth was especially sharp in the late 1980s, mirroring a surge in Japanese investments.

Four newly industrializing economies — Hong Kong, Singapore, the Republic of Korea and Taiwan Province of China — drew half of all 1980s inflows to Asia. Indonesia, Malaysia, the Philippines and Thailand — all members of the Association of South-East Asian Nations — received 26 per cent. China accounted for 19 per cent, with inward investment growing 13 times between 1982-1988.

The late 1980s also saw the first-time opening of several Asian countries previously closed to foreign capital. In Afghanistan, the Democratic People's Republic of Korea, Lao People's Democratic Republic, Mongolia, Myanmar and Viet Nam, transnationals have now entered joint venture agreements, but overall investment volume remains small.

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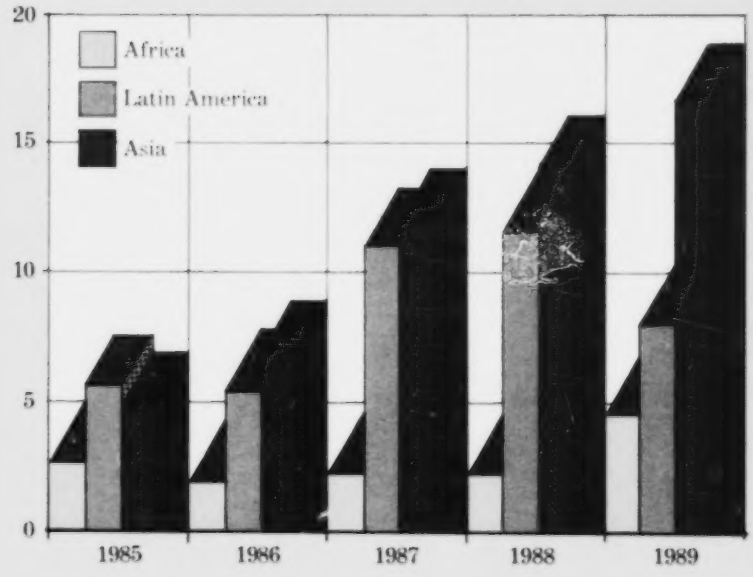
Foreign Direct Investment

(Annual inflows, billions of dollars)



Small Investors Lead Influx into Romania

Before December 1989, Romania was host to a total of five joint ventures with foreign participation. By mid-1991, the number had shot to 4,196 and the value of registered foreign capital to $192 million. Small investors have been the first-comers, but their enthusiasm is a good barometer of more generalized investor interest.

In the Central and Eastern European context, approximately one fifth of all joint ventures since 1989 are now in Romania. But the country accounts for just 3.5 per cent of total investment flows into the region. Most investments have been small, with a value of under $50,000.

Prompting the surge has been new investment legislation. Decree No. 96 of March 1990 allows 100 per cent foreign ownership. Decree 122 of April 1990 permits the establishment of foreign representative offices. And a new decree enacted in April 1991, exempts foreign investors from customs duties on imported capital

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Investment in Asia

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High-growth Region

In 1986, with inflows of about $6 billion, Asia assumed Latin America's till then unchallenged status of largest host region in the developing world.

Among the key reasons for the new interest in Asia are rapid economic expansion and a legal and business environment conducive to foreign investment. During the 1980s, GDP growth in Asia was 7 per cent, compared to a world average of 3 per cent. Added to this, human capital and infrastructure are of high quality, production costs low, domestic markets sizeable, and in many countries natural resources plentiful.

Investments have concentrated in export-oriented projects targeted at the global market. Nevertheless in the late 1980s the growth in local purchasing power due to rising domestic incomes began to draw a rapidly burgeoning number of investments to service the Asian consumer. So too did service industries, such as banking, insurance and construction, aided by liberalizations in the rules governing foreign investment in services.

Transnationals are particularly important in the electrical equipment, chemicals, petroleum and coal products industries in the Asian region. In many countries, transnationals account for over 45 per cent of the sales and employment in each of these industries.

Minority and majority participation in joint ventures have been the prevalent form of foreign involvement in most countries, despite the abolition of restrictions on foreign ownership. Majority foreign ownership is common primarily in capital intensive or technologically advanced industries.

Developments in China and India, Asia's largest countries, are likely to significantly affect future foreign direct investment patterns in the region.

Joint ventures have been the prevalent form of foreign involvement in most countries despite the abolition of restrictions on foreign ownership.

Japan's Role

Japan's emergence as key global investor has particularly contributed to the post-1985 jump in inflows to Asia. According to Japanese estimates, in 1989 it had $8.2 billion invested in Asia.

The hard logic of locational advantage aside, Japanese investments in Asia have been driven by the global competitive strategies of its transnationals to establish a regional network of foreign affiliates from which to supply both domestic and international markets. Investments have concentrated in the newly industrializing economies, but due to rising labour costs there, they have begun shifting to Malaysia, Indonesia and Thailand. In the newly industrializing countries, investments in sophisticated advanced-technology industries are beginning to replace investment in labour-intensive activities.

Investments concentrated in the newly industrializing economies have begun shifting to Malaysia, Indonesia and Thailand.

Accelerating Intra-regional Investment

In many Asian economies the late 1980s has also seen an acceleration in investments from other countries in the region, mainly the newly industrializing economies, of which Hong Kong is the largest intra-regional investor.

In China, the share of developing country investment — over 65 per cent in 1987 — exceeds that from developed economies, due to a surge in inflows from Hong Kong. A large number of developed country and Taiwanese investments in China have also been made through Hong Kong.

In turn China has emerged as a significant home country, looking to penetrate new markets, overcome trade barriers, and acquire technology and management skills.

Asia-Pacific Investment Directory

The soon to be published Asia-Pacific volume of UNCTC's *World Investment Directory* provides detailed statistical data on investment patterns in Asia. The volume contains foreign direct investment figures and economic profiles for 21 Asian and Pacific countries, and data on related variables, such as sales, employment and assets. Company data, information on national and international legal frameworks, and on official and secondary sources are included. The Directory, compiled with the help of correspondents in several Asian countries, is to be published in December 1991. ■

Debt-Equity Swaps Accelerate Foreign Investment Inflows

Swaps were the financial invention of the eighties, necessitated by the debt crisis. Many developing countries improvised major debt-for-equity programmes, unsure of the results. How did they fare?

Case studies (undertaken by UNCTC jointly with the Economic Commission for Latin America and the Caribbean) suggest that, overall, debt-equity swaps have attracted additional foreign direct investment and contributed to debt reduction, even in countries that have since suspended their programmes. This is the common element in otherwise contrasting experiences of Brazil, Chile, Mexico and the Philippines. These countries account for over 80 per cent of all swaps, which totaled $9 billion in 1990.

Chile erased half its foreign debt between 1985 and 1989 through swaps of $6.5 billion.

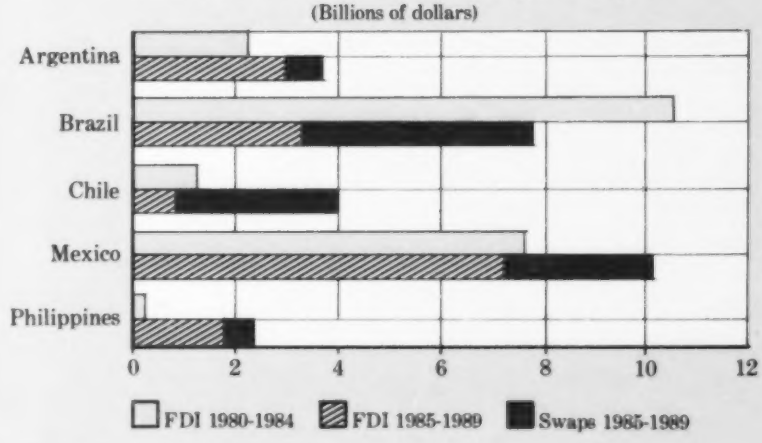
Chile erased half of its foreign debt between 1985 and 1989 through swaps of $6.5 billion. Their role was smaller in the Philippines ($0.8 billion) and Mexico ($4.1 billion), accounting for about 20-25 per cent of the debt reduction there. Brazil's swaps of $9.5 billion were more than any other country but small in relation to its total debt of some $59 billion. However, even here swaps account for all of Brazil's debt reduction, and then some. Without the swap programme, Brazil's debt would have risen by more than $7 billion rather than actually falling by $2 billion.

It is hard to say how much of the investment inflows induced through swaps would have occurred anyway in the absence of swap programmes. Rough estimates suggest that Chile registered the highest additionality, 64 per cent; Mexico achieved about 44 per cent additionality; Brazil relatively little. On the other hand, Brazil succeeded in targeting swap investments to specific areas and in capturing a significant portion of discounts: both objectives involve trade-offs with promoting additionality.

Discounts: In Chile, foreign investors were allowed to capture the discount between the face value of a debt paper and its traded value on the secondary market. However, the more typical case was Venezuela, where the discounts captured by the Government averaged 43 per cent in 1989, contrasted with the secondary market discount of around 60 per cent.

Foreign Investment Through Swaps

(Billions of dollars)



Country Experiences

Targeting: Brazil allowed a greater share of discount benefits if investments were made in underdeveloped areas; and indeed close to half of the swap investments were made in those areas. Mexico gave preference to privatization and export-oriented investment. The privatization objective did not have much initial success. However, a significant portion of investment has been channelled to export-oriented activities. The Philippines has been able to direct 90 per cent of its swap investments into desired sectors.

Mexico's major goal was initially to attract foreign direct investment. During 1986-1987 foreign investors benefited greatly because Mexican debt traded at 50-55 per cent of face value, while the Government redeemed debt at close to full value. In addition, the higher parallel rate of exchange was used, rather than the official one. However, in 1990 the Government sought to maximize the share of the secondary market discount: $1 billion of debt conversion rights

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READEX FICHE

Companies Think Globally on the Environment

Benchmark Survey Shows Extensive Use of Company-wide Policies, But Developing Countries Neglected

As countries start to think globally on the environment, so too are companies. A just completed UNCTC survey of 200 of the world's largest transnationals finds them putting in place safety and environmental standards that extend through the entire firm, as headquarters seek more control over the environmental behaviour of affiliates.

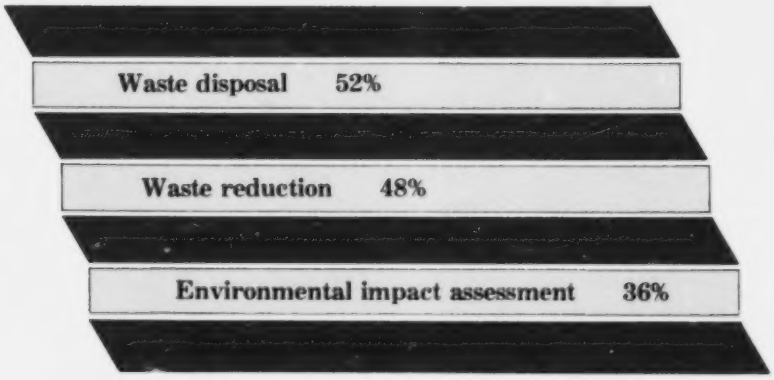
Nearly half the companies surveyed have an explicitly stated corporate-wide environmental policy, and defined lines of responsibility between headquarters and affiliates. Clearly stated principles send an unequivocal message through the firm that environmental considerations are central to favourable performance.

Seventy per cent have company-wide emergency response systems, safety audit procedures, and worker safety training programmes. Over two thirds have international programmes to include workers and the community in environmental and safety planning.

Environment a Top Management Priority

In more than three quarters of the firms surveyed, environment and safety issues are handled by top management. This is significant, since managements make resource decisions that affect company commitment and direction and fundamentally influence firm values. Managerial leadership is also essential in implementing staffing and remuneration policies that reflect key priorities.

Do You Have Company-wide Policies Beyond Those Required by Law?



Some firms have begun to tie environmental or health and safety concerns to salary and compensation systems. Kodak, for instance, has reduced environmental accidents by almost 50 per cent by basing management salaries on chemical spills. Eighty-two per cent of responding firms incorporate environmental protection or health and safety responsibilities into job descriptions.

As a group, health and safety policies and programmes are more developed than those relating specifically to environmental protection. For one, threats to human well-being are more directly felt and more visibly affect corporate productivity. The history of regulation is also longer in this area. Maybe for these reasons, the extractive sector has more environmental and safety programmes than any other, the survey finds.

> ***One reason why more firms do not have company-wide policies are differences in environmental regulations between nations.***

Global environmental management is a new issue for corporate headquarters, who have generally left local environment, health and safety issues to their affiliates. But with the tremendous financial liabilities arising out of environmental accidents such as Bhopal, parent companies are demanding greater accountability from overseas operations. Most importantly, corporations have found that progressive environmental management allows them to play a key role in shaping the way in which their industry is regulated.

Home Country Legislation Key

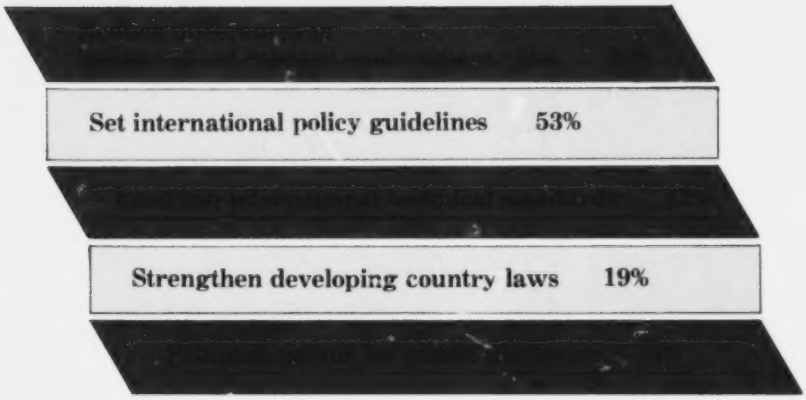
What has been key in stimulating company-wide policies, said

companies, are changes in home country legislation. Consumer and worker-related incidents, often involving protracted litigation, have not had the same force. Though host country laws are also important, home country legislation has had more influence in provoking management responses extending through the whole firm.

One reason why more firms do not have company-wide policies are differences in environmental regulations between nations. The absence of a level playing field in environmental regulation compels firms and their affiliates to act locally. If they are to match rivals in individual markets, firms are not likely to burden themselves or their overseas operations with regulatory "additionalities" that can act as a competitive drag.

What would most further corporate environmental objectives, companies said, would be the reduction of differences in the environmental rules and regulations of industrialized countries. They see an expanded role for the United Nations in global environmental standard setting, and in the setting of international policy guidelines and technical standards. The strengthening of national inspection systems in developing countries or the establishment of norms and procedures for public disclosure are not viewed as essential to corporate environmental goals.

How Can the United Nations Best Further Your Environmental Objectives?



Recycling and Conservation Win

In the category of environmental protection, schemes that act to reduce waste or to minimize the use of energy or raw materials are the most well developed. Eighty-four per cent of the firms surveyed have recycling, energy and water conservation, and energy efficient production programmes.

Of responding firms, Japanese and North American companies have more environmental and health and safety programmes than European ones.

Most often, such sustainable environment management activities are compatible with corporate profit goals. They directly cut input and waste-disposal costs. So there is a strong financial incentive for them. Activities without the same tangible returns are less common. Under a quarter of responding firms, for instance, have programmes to use renewable energy resources or preserve endangered species.

Regional Comparisons

Of responding firms, Japanese and North American companies have more environmental and health and safety programmes than European ones. Likewise, the number of policies going beyond those required by national law for the former two groups were nearly double that for the European firms. Japanese and North American based firms also lead in terms of environmental audit usage, accident prevention plans, emergency response systems, and safety training programmes. Top management involvement in initiating environmental programmes was highest among Japanese firms.

Rather than reflecting uneven levels of environmental commitment, these differences may mirror varying regulatory climates in each region. North American firms, for instance, have the strongest land protection and management policies, because legislation on land is most stringent in the United States and Canada. Similarly, North American firms are most likely to use disclosure practices. In the European case, it is likely that the lack of internal management procedures is compensated for by more detailed national or EC regulations.

Developing Countries Overlooked

While central managements are

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Environment Survey

(Continued from page 5)

seeking more control over the company-wide handling of environmental, health and safety issues, enforcement in developing countries is still weak.

Less than a quarter of the firms surveyed track air emissions in developing countries. One third do not know if plants in developing countries are located near freshwater supplies. In a number of cases, headquarters are not aware whether any formal mechanism exists to environmentally monitor affiliates in developing countries. Only a handful monitor waste disposal by developing country affiliates.

In many developing countries, the regulatory framework is still rudimentary. Transnationals have no obligation to apply the strict rules they use in developed countries. Many companies are finding, though, that standardized, firm-wide production methods and technologies are most cost effective. External constraints, like required foreign minority ownership or inadequate local infrastructure, sometimes impede the use of up-to-date technologies in developing countries.

The Survey

The UNCTC Benchmark Survey was conducted to ascertain the current state of international corporate environmental management. 794 of the world's largest companies, or firms with over $1 billion in sales, were sent questionnaires. Over 200 companies, generally considered to be in the vanguard of innovative environmental management, responded. Most were manufacturing firms. A higher proportion of Japanese, as opposed to North American or European, firms replied. Similarly, larger firms (by sales) are better represented than smaller ones.

Five leading environmental research centres in the United States, Japan, Germany and the United Kingdom helped with the collection and analysis of data. The Government of the Netherlands provided financial support. ■

Romania

(Continued from page 1)

and raw materials for up to two years, grants them a tax holiday for up to five years and accords certain advantages in the transfer of profits. Foreigners may also buy assets in privatized enterprises. In addition, the opening in March 1991 of a foreign currency market at the National Bank facilitates profit remittances abroad.

Foreign Companies in Romania

Small Investors More Mobile

Greater mobility and adaptability enable small investors to respond quickly to new opportunities. Large firms, on the other hand, require detailed prior information and lengthy feasibility studies to make investment decisions.

A total of 2,561 European companies account for 70 per cent of foreign capital. Germany has been the largest investor, with total capital of $26 million. Italy, the United States, the Netherlands and Greece follow. Developing countries like Turkey and Syria are also among the 10 leading investors, concentrating their investments in tourism and trade. Of the Eastern European home countries, the USSR leads with $1.92 million in registered capital. Altogether firms from 83 countries have put money into Romania.

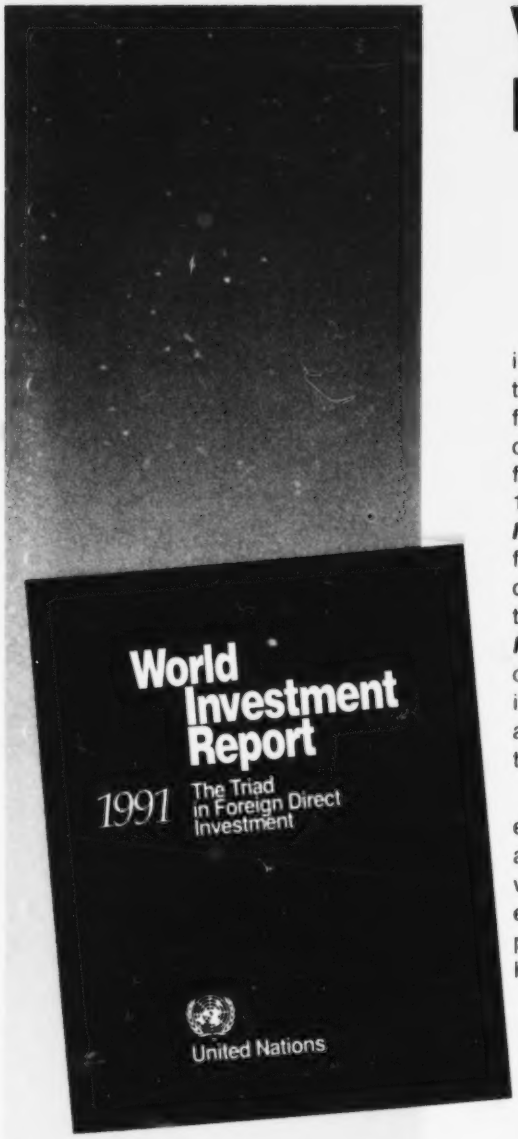
These first-comers have concentrated on trade and tourism. Here the initial investment is minimal and the return almost immediate.

Among the larger investors in Romania are several third-party firms registered in Central America. They account for 4 per cent of total foreign capital.

Large Firms Also Investing

Nevertheless, large well-known firms are already present. Siemens, Minolta, Kanematsu, Italstrade and Stefanel, for example, are among those that have invested. Others, like Bouygues, Coca-Cola and Colgate-Palmolive, have concluded partnerships with local enterprises. ICI, Fiat, Asea Brown Boveri, Dow Chemical, Bayer, to name some examples, have opened representative offices as a first step to more substantial economic relations.

In 1990 UNCTC reviewed Romania's draft privatization law and in May 1991 organized a workshop on foreign investment and privatization. This was attended by 90 senior officials from government agencies and state-owned enterprises. A programme of assistance to the Romanian Agencies for Privatization and Development is being worked out with the Government of Romania and UNDP support. ■



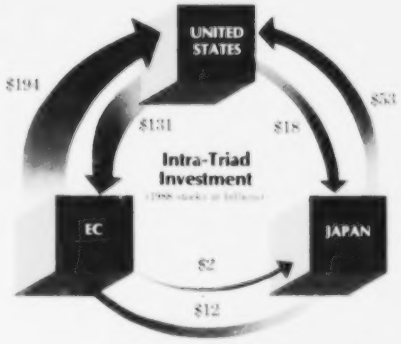
World Investment Report 1991

The Triad in Foreign Direct Investment

In the 1980s, foreign direct investment outflows grew three times faster than world exports and four times faster than total world output, to reach $200 million in flows and $1.5 trillion in stock in 1989. ***The Triad in Foreign Direct Investment*** analyses the boom in foreign direct investment and the corporate strategies behind it. It is the first in the ***World Investment Report*** series, which provides data on trends in global foreign direct investment, along with in-depth analysis of selected themes relating to transnational corporations.

The report is a unique reference for policy makers, researchers, and corporate managers concerned with the major trends in the world economy and the role of global corporations in shaping those trends. Highlighted in the report are:

- Latest statistics on world-wide FDI trends, including regional and sectoral breakdowns, and current trends in national and international policy frameworks concerning transnational corporations and foreign direct investment.
- An examination of the emergence of three investment blocs centred on the Triad — the United States, the EC and Japan — and regional integration in Europe, North America, and Asia.
- In-depth analysis of the FDI relationships within the Triad and between the Triad and developing countries, including an analysis of the corporate strategies and national policies that are driving current trends.
- A detailed look at the strategies of Japanese transnational corporations — the fastest-growing outward investors in the 1980s — in the Triad and in Asian developing countries, including data on regional core network strategies which are likely to shape trade and industrial development in host countries.



- An analysis of how developing countries are increasingly forming clusters around each Triad member and the policy implications of this trend.
- A look at how foreign direct investment is interlinked with trade, technology, and financial flows, and how transnational corporations are the integrating agents for those flows.
- A discussion of the policy implications of the above trends, with special emphasis on developing and least developed countries.

To order, see reverse

WORLD INVESTMENT REPORT 1991
THE TRIAD IN FOREIGN DIRECT INVESTMENT

"UNCTC has at last produced some empirical evidence on how global corporate strategies affect the management of economies . . . Its findings have important implications for national and international policymaking."

Financial Times

"A valuable tool for researchers and students of international economic relations — indeed anyone interested in the way that transnational corporations are shaping the world economy."

John Dunning, Professor of International Business, Universities of Reading and Rutgers

"FDI is increasingly important in economic development because of its close links to trade, financial flows and technology transfer . . . UNCTC provides the first detailed look at the investment links between the three big blocks — America, the European Community and Japan — and their investment in the rest of the world."

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"The analysis of how transnational corporations control world-wide flows of investment, trade and technology should awaken policy makers to the fact that existing policies and institutions need to be reformulated to reflect the role of global corporations as the integrating agents in the world economy . . . Hits all the right issues."

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"Must reading for policy makers in developing countries who are concerned with how their countries will fit into the new world order being shaped by the Triad."

Gustavo Petricioli, Ambassador of Mexico to the United States

"A unique and comprehensive source for up-to-date data on world-wide investments, this report is a must reference for the desk of anyone concerned about the world's economy."

Max Baucus, United States Senator (Democrat from Montana)

"An important contribution by the UNCTC on the consequences for developing countries of international corporate strategies that are contributing to the reorganization of the world economy. It is imperative that policy makers in developing countries understand these global changes and their implications."

Osvaldo Sunkel, Director, *Pensamiento Iberoamericano, Revista de Economia Politica*

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Debt-Equity Swaps

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of the first auction were distributed at 52 per cent discount, quite close to the secondary-market discount of about 57 per cent.

Inflation: Retiring public debt by issuing local currency expands the domestic money supply. To avoid inflation, Chile sterilized the impact of monetary expansion by issuing long-term bonds on its domestic capital market (not all countries have as well-developed markets). However, by competing with the private sector's long-term borrowing needs, the Government risked crowding out domestic private investment and created upward pressure on interest rates. Furthermore, interest payments on the bonds created for debt-equity swaps constitute a drain on the fiscal budget.

In the Philippines, where inflation during the swap programme was less than in preceding years, the Central Bank explicitly incorporated debt conversion in its reserve money programme and set a monthly ceiling on conversion.

Capital flight: Allowing nationals to participate in swaps provides a powerful incentive for local residents to repatriate capital. It also helps avoid denationalization of the economy and reduces the future foreign exchange costs of swaps. Nationals accounted for 29 per cent of total debt-equity conversions in Chile between 1985 and the middle of 1990. Filipino investors accounted for 45 per cent of the authorized Philippine debt-equity swaps and for 38 per cent of the materialized swap transactions.

Round-tripping: To ensure that the swap investment is not reconverted back into foreign exchange and taken out of the country, Chile controls the monthly volume of allowable swaps by nationals and monitors the parallel exchange rate. The Philippines' Central Bank examines invoices, receipts, sale agreements, lease contracts and other relevant documentation for a swap deal. It also requires that swap funds not immediately needed for a project be invested in non-transferable, peso-denominated Central Bank bills.

Checklist for Decision Makers

Swap stages	Policy choices	Impacts
Investor purchases bank debt from secondary market at less than face value.	Allow nationals to purchase?	Purchases by local residents can help in repatriating flight capital.
Investor redeems debt paper with debtor-country's Central Bank for local currency at somewhere between the face value and secondary market value.	How much to discount from face value? At what rate of exchange?	High discounting and unfavourable exchange rates can discourage additionality.
	Print currency?	Inflationary.
	Or issue bonds?	Need local capital markets, can crowd out private sector.
Investor uses local currency to make an approved investment.	Restrict to specific areas?	Controls reduce additionality, but can help check "round tripping".
	Privatization?	Export oriented activities. Non-inflationary.

The suspension of the programmes in Brazil and Mexico was prompted not by poor performance but by persistent macro-economic imbalances.

Privatization: A swap involving the purchase of state enterprises is non-inflationary, as there is no disbursement of local currency. But sales in Chile have been criticized as being subsidized. In the Philippines, some 27 per cent of conversions went towards privatization. The enterprises can benefit from capital infusion, management and technology transfer.

Stability and continuity are major factors in determining the success of a swap programme. They, in turn, are strongly conditioned by macro-economic performance. The suspension of the debt-equity programmes in Brazil and Mexico was prompted not by poor performance but by persistent macro-economic imbalances for which debt-equity swaps could be, at best, an inadequate remedy. ■

Do TRIMs Distort Trade? No More Than Fiscal Incentives

Trade-related investment measures (TRIMs) have been among the most contentious subjects in the Uruguay Round. But according to a recent UNCTC-UNCTAD joint study, the policy debate over TRIMs has lagged considerably behind advances in theory and evidence. Besides, they are no more distortionary than other measures affecting trade.

Developed countries argue that TRIMs distort market forces. Developing countries argue that TRIMs promote development objectives.

TRIMS often require firms to undertake operations they plan to anyway.

Pros and Cons

In perfect competition, TRIMs are distortionary. However, under the oligopolistic conditions which typify foreign investment, policy interventions can shift rents and producer surplus to the host country. Surveys also show that firms do not mind: TRIMs often require them to undertake operations they plan to anyway. TRIMs speed their decisions to develop local supplier networks or to launch exports.

Another typical application of TRIMs is to attract "footloose" industries with multiple operating sites of roughly comparable costs. Here, activist hosts not only win by shifting rents-cum-producer-surplus to their economy, but also by creating "industrial complexes" with forward and backward linkages in non-traded intermediate goods which likewise enjoy increasing returns to scale.

An export performance TRIM is not as efficient as a production subsidy. But the granting of subsidies to foreign investors may not be economically feasible and politically acceptable in a developing country. The end result is the same: the subsidy transfers revenue from taxpayers to foreign firms; the TRIM burdens consumers with high prices which transfer rents in less ostentatious fashion to the foreign firms.

Trade-related Investment Measures

Investment incentives
- Investment grants and allowances
- Priority access to capital
- Tax relief and exemptions
- Tariff protection

Performance requirements
- Local content requirements
- Trade-balancing requirements
- Export requirements

Trade Policy

The debate on whether TRIMs are distortionary is more complicated than conventional wisdom suggests. European Governments offer cash grants up to 60 per cent of the cost of the entire investment; US state governments have given as much as $325 million per project or $108,000 per job to foreign firms. While no explicit domestic content or export performance rules are involved, it would be hard to argue that such efforts are not trade related. ■

The Impact of Trade-related Investment Measures on Trade and Development: Theory, Evidence and Policy Implications. **A joint publication of UNCTC and the United Nations Conference on Trade and Development. Available in English in December 1991. Copies may be obtained from the United Nations, Sales Section, New York or Geneva.**

The United Nations Centre on Transnational Corporations is an autonomous body within the United Nations Secretariat. Under the guidance of the Commission on Transnational Corporations, an intergovernmental subsidiary organ of the United Nations Economic and Social Council, the Centre seeks to further understanding of the nature of transnational corporations; to secure effective international agreements; and to strengthen the negotiating capacity of host countries, in particular the developing countries.

Transnationals is published four times a year. The articles draw on the results of research and technical co-operation activities undertaken by the Centre. The findings do not necessarily reflect the views of the United Nations. Requests for inscription on the mailing list and other correspondence should be addressed to the Editor of ***Transnationals***, Room 1216, 2 United Nations Plaza, New York, NY 10017, USA. Fax 212-963-2146

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Volume 3 • Number 3

United Nations Centre on
Transnational Corporations
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